

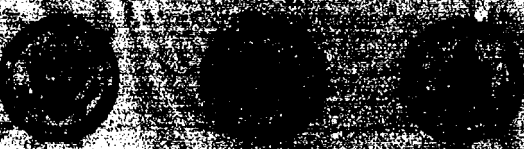
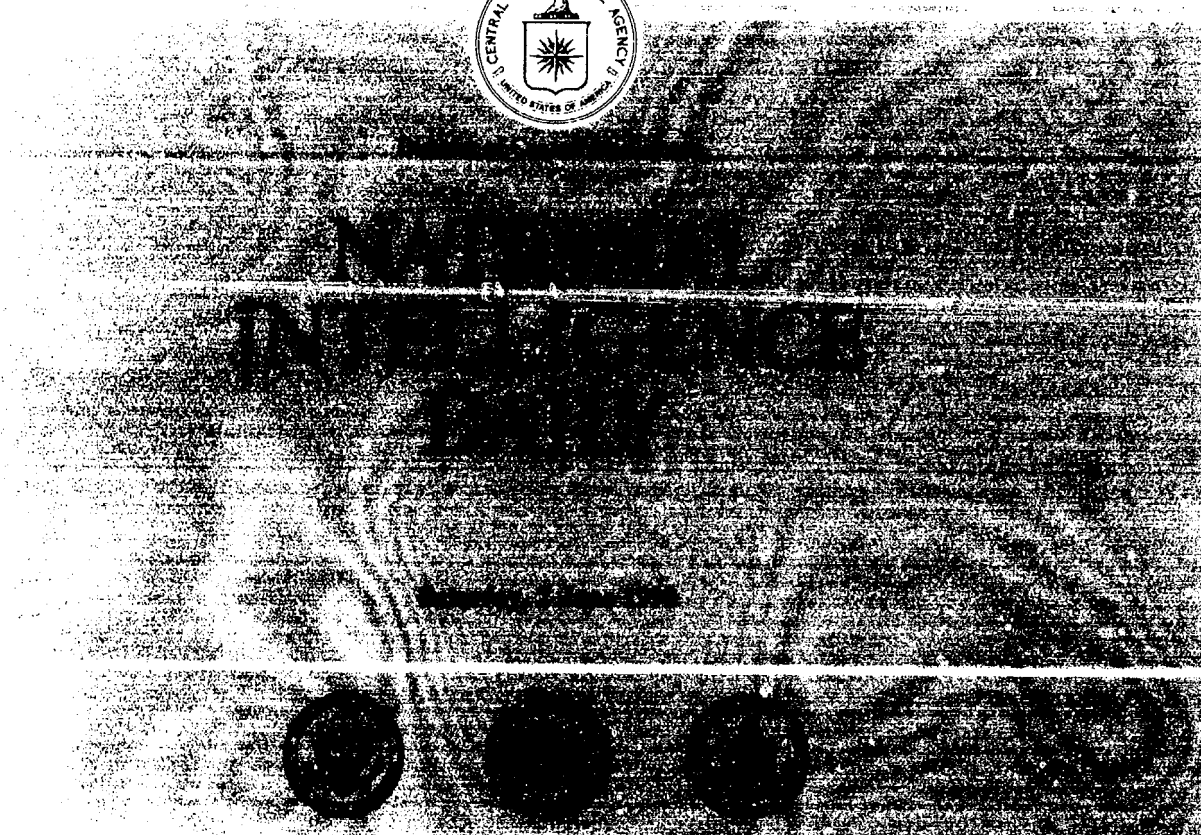
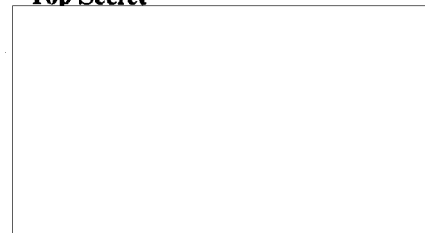
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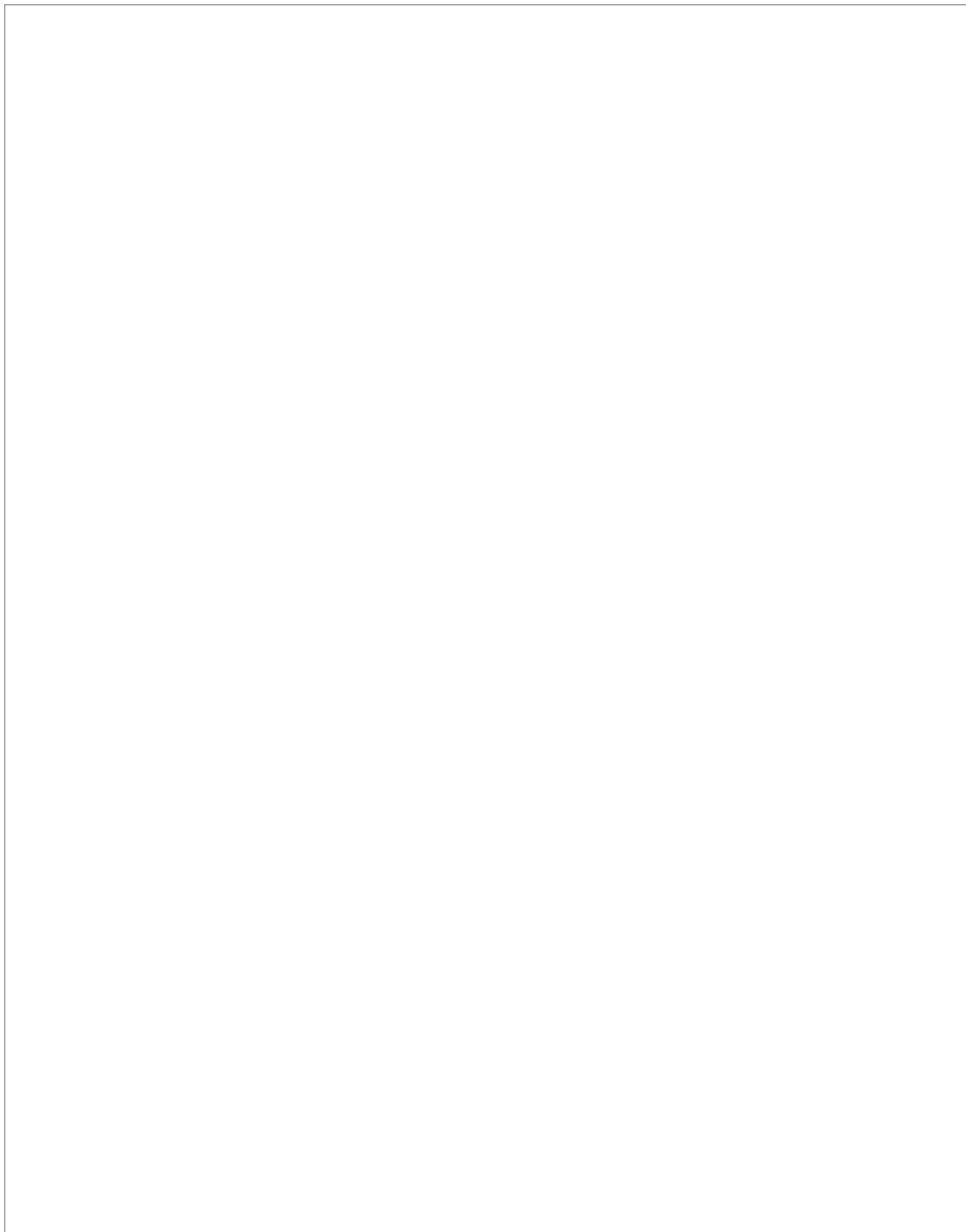
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The Yel'tsin Approach: Gain Without Pain

Yel'tsin sees himself as a radical reformer and is out in front in calling for denationalization of industry and agriculture. He also is a populist politician, however, who opposes sharp price increases that would inevitably come with a market economy. As a result, Yel'tsin's economic program is a collection of measures largely intended to appeal to the public's desire for quick improvements in consumer welfare and increased republic autonomy.

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USSR:

Ryzhkov's Economic Program Caught in Crossfire

The government's proposed economic reform program is already being modified in response to criticism from across the political spectrum, and pressure is mounting for Mikhail Gorbachev to use his presidential powers to act decisively.

In recent interviews with Western media, Gorbachev's close economic counselors have denounced the program Premier Ryzhkov presented to the Supreme Soviet a week ago. Nikolay Petrakov called it a "wholesale retreat from the President's concept," and Presidential Council member Stanislav Shatalin condemned it for lacking a strategy for borrowing from the West. Both claim an alternative program that would break up the government bureaucracy and move rapidly toward privatization is being drafted by reform-minded economists and will be ready this summer.

The Supreme Soviet is considering resolutions that would withhold final approval of the economic reform package until supporting laws and decrees are submitted to ensure, and accelerate, its implementation. The draft resolutions call for the deputies to vote on the price hikes on bread products planned for 1 July but withhold approval of the rest of the package for now. The reform package has been sharply criticized by radical deputies for not going far enough and by Russian Republic Supreme Soviet Chairman Yel'tsin and Ukrainian party chief Ivashko for imposing too many hardships.

Comment: There are still deep disagreements over how far and how fast to move toward a market economy. Any fixes, however, are unlikely to halt the economy's decline in the near future. The pressure for Gorbachev to use his presidential powers to accelerate the implementation of reform is already evident in the Supreme Soviet and the Presidential Council and probably will mount. Yel'tsin's election as Russian Republic Chairman is likely to add impetus to the reform debate but make it more difficult for Gorbachev to act unilaterally. As criticism intensifies, Gorbachev appears to be dissociating himself from the government's plan and setting up Ryzhkov to take the blame.

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USSR:

Yel'tsin Offers Support to Lithuania

Yesterday's meeting in Moscow between new Russian Republic Chairman Boris Yel'tsin and Lithuania's President Landsbergis is a first step by Yel'tsin toward an endorsement of Lithuania's independence, a move that would increase popular pressure on President Gorbachev to reach an understanding with the breakaway republic.

Yel'tsin says he is willing to cooperate fully with Lithuania and the other Baltic republics "as soon as Russia gets its sovereignty," according to press reports.

Comment: Yel'tsin's gesture of support alone almost certainly will increase public pressure on Moscow to soften its position. The meeting will also undermine the arguments of those in Moscow calling for a hard line.

Although Yel'tsin has adopted a positive approach toward Lithuania, the full extent of his support for Vilnius is unclear. His remarks to Landsbergis are ambiguous on the timing of any Russian assistance for Vilnius; in his press conference on Wednesday, Yel'tsin called on the republic to suspend its independence declaration so as to get talks with Moscow under way. Even if he does endorse Lithuanian independence, he may have difficulty persuading the Russian legislature to back him. Yel'tsin was elected by only a slim majority, and even his supporters appear to be split on the Lithuanian issue.

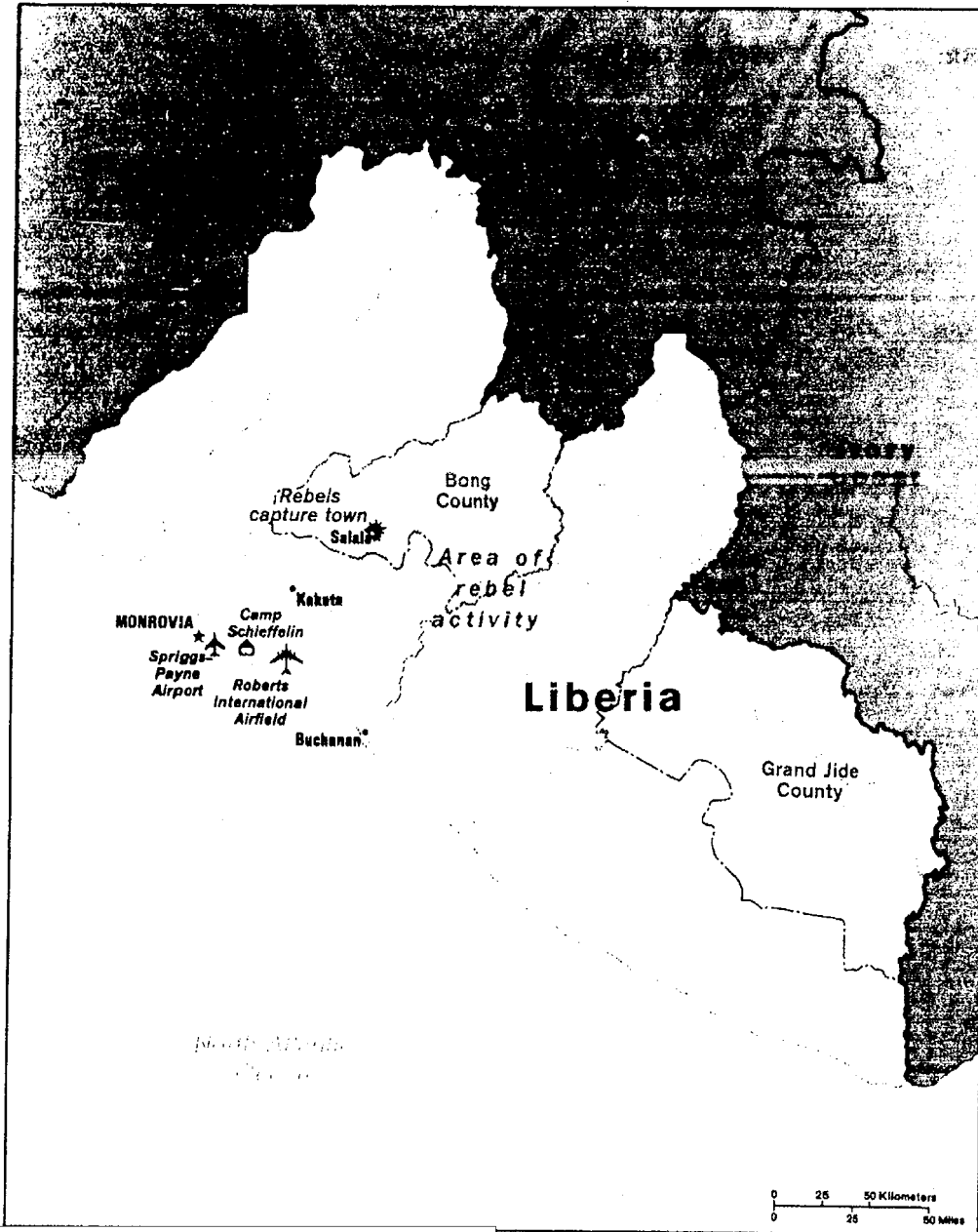
The Russian Republic's ability to aid Lithuania is problematic. Direct trading relations between enterprises in the two republics will not circumvent the economic blockade unless Moscow allows the use of transportation lines it controls. Moscow has already blocked the efforts of West Siberian oil workers to trade their products for Lithuanian consumer goods.

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Military Situation, 1 June 1990



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LIBERIA:

Government Losing Its Grip

President Doe's unwillingness to step down and the government's increasing inability to provide services or protection to Monrovia's heighten the possibility of an outbreak of panic or lawlessness in the capital as the rebels close in.

Doe said yesterday he would not run for office next year and appealed to the US and the UN to end the fighting to pave the way for internationally monitored elections. A rebel spokesman countered, however, that the insurgents would accept nothing less than Doe's immediate resignation and departure from Liberia as preconditions to a cease-fire.

The situation in Monrovia continues to deteriorate. Many Cabinet members and other high-level officials have left the country, leaving staffers to run the government.

A spree of panic buying reportedly has cleared shop shelves and led to brawls; Army troops were sent to control the crowds. Transportation also is a major problem.

About 800 of the Gios and Manos attacked in the UN Development Program compound earlier this week are being protected in local churches. Meanwhile, the mass exodus of Krahn's continues from Spriggs-Payne Airport in Monrovia to their home county, Grand Jide. Some of them brandished firearms in an attempt to get aboard. The Army Commander in Kakata took 200 of his troops back to Monrovia Wednesday night, leaving only a token force to defend it. The rebels subsequently captured a small town north of there. There was no indication of fighting near Roberts International Airfield yesterday.

Comment: Doe's statement yesterday shows he is increasingly out of touch and likely to continue to refuse to step down or leave the country to avert a direct attack on the capital. Although the situation in Monrovia has not yet become unmanageable, the mounting inconveniences and tensions are likely to heighten the potential for hysteria and rioting if circumstances deteriorate further. Troop morale and discipline continue to plummet, but the Army probably remains capable of deploying troops in response to rebel attacks near Monrovia. Some 375 soldiers who could be easily deployed are stationed at Camp Schieffelin. Military commanders probably will continue their current practice of returning the bulk of their forces to Monrovia after each assault, however, to minimize the risk of desertions and being cut off by the rebels.

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If Shamir Cannot Form a Government

If Shamir fails, President Herzog can designate any Knesset member to try to form a government. Like Shamir and Shimon Peres, any new candidate would have a three-week mandate with the possibility of an extension of up to three more weeks.

Herzog also can say he does not believe any sitting Knesset member can form a government; he could then make a nonbinding recommendation to the Knesset for an election before the one scheduled in fall 1992—a majority vote is needed to call an early election.

Shamir's minority caretaker government will remain in place until a new government is formed; it could sit until 1992 in the absence of either a new government or an early election. Although a caretaker government is not subject to a vote of no confidence, a Knesset majority can take the initiative to designate a candidate and ask the President to give that person a two-week mandate to form a government.

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ISRAEL:

Time Short as Shamir Tries for Government

Prime Minister Shamir appears willing to wait until the last minute to try to form a new Israeli government; his success is not assured.

Shamir's extended mandate expires next Friday and cannot be renewed again. He has not yet met the demands of potential partners in a rightwing-religious coalition. Among those groups, however, only the rightwing Moledet Party—whose price for support is the Police Ministry—has threatened not to back him in a Knesset vote of confidence.

On Tuesday, Israeli media reported rumors that Shamir was negotiating through a mediator with former Defense Minister Rabin of the Labor Party on establishing a unity government led by Shamir. Both men denied the reports, but Shamir told reporters the following day that the possibility of a unity government "has always existed."

Comment: Shamir has made little progress in nailing down a coalition, but, even without further developments, he may be able to win a vote of confidence and present a minority government. Moledet probably would abstain rather than vote against him. Shamir would then win if he could persuade one Knesset member now aligned with Labor—most likely a representative of the Agudat Yisrael religious party—to abstain.

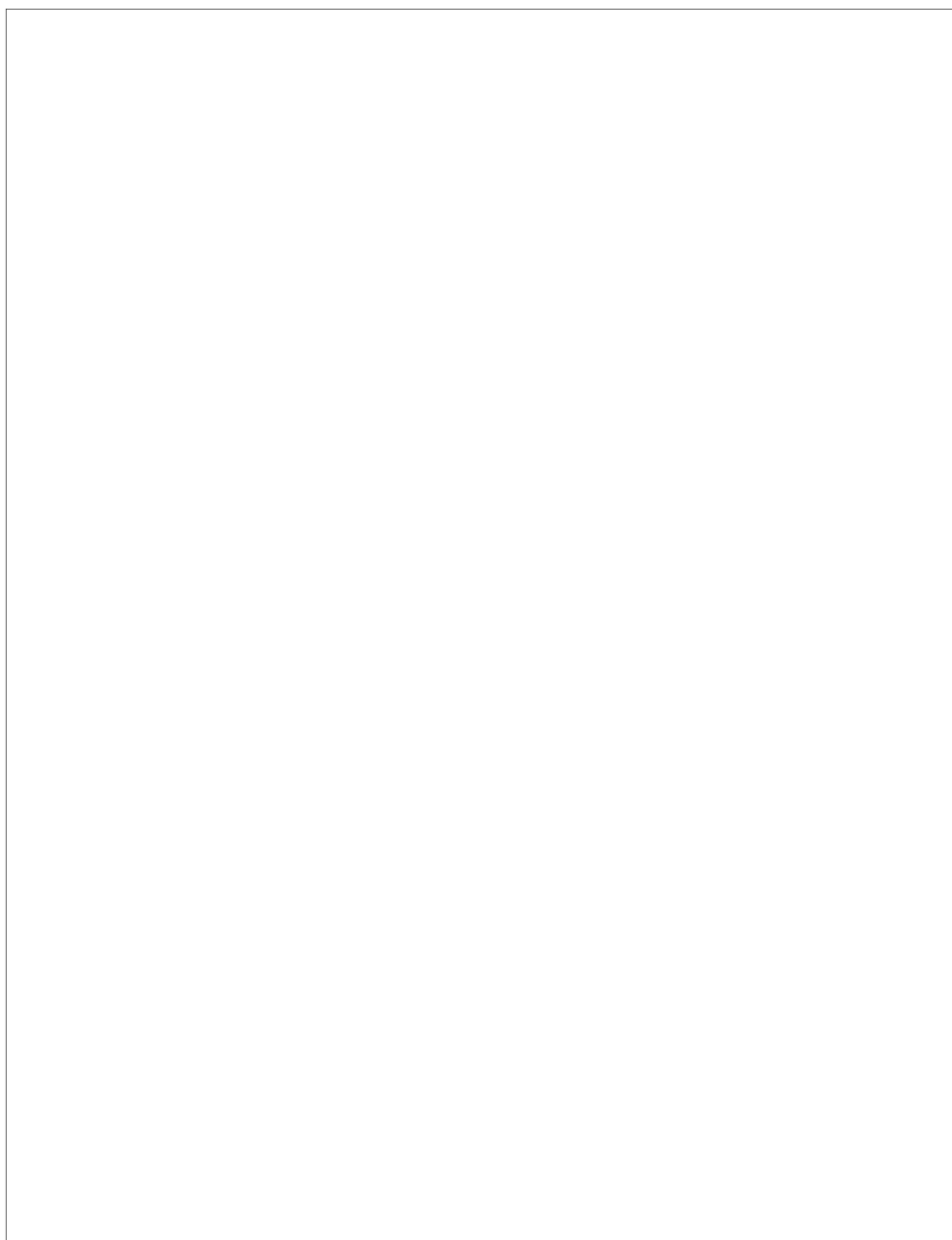
Shamir's statement leaving open the possibility of a unity government and his slowdown tactics on talks about a narrow coalition probably are meant to improve his bargaining position with the rightwing and religious parties. The PLO's recently foiled terrorist attack may have hardened his determination to lead a rightwing-religious government; even if he fails to form a new coalition, he may try to continue leading a caretaker government.

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~~Top Secret~~**EC: Likely To Push Aid to USSR**

At their summit in Dublin late this month, EC leaders will call for Western economic assistance to the USSR but will look to the US and Japan to pick up most of the tab. [REDACTED]

President Gorbachev's recent request to Bonn for a \$20 billion line of credit for consumer goods over three years tracks closely with the EC Commission's own calculations of Soviet needs in the next two years. The amount, however, greatly exceeds what the West Europeans are willing to lend. EC Commission President Delors has argued for including the USSR in the G-24 aid effort for Eastern Europe and for creating a payments union for CEMA countries. [REDACTED]

Comment: The EC leaders will try to hammer out a consensus on Soviet aid in Dublin so they can present a united front at the Western economic summit in Houston next month. Debate in Dublin is likely to focus on how much credit the USSR needs and how closely to tie aid to economic reform. Regardless of the figure that ultimately emerges, the West Europeans probably will argue that they have picked up the lion's share of the aid bill for Eastern Europe and will urge Washington—and, to a lesser extent, Tokyo—to assume a major part of the responsibility for a program to aid the USSR [REDACTED]

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ANGOLA: Luanda Talking Tough

Luanda in the past week has intensified its rhetoric condemning US and South African aid to UNITA. According to reports in the Portuguese press, Angola and Cuba may threaten to suspend the Cuban troop withdrawal when the Joint Monitoring Commission meets in Havana Monday and Tuesday, claiming border violations stemming from efforts to resupply the insurgents.

Comment: Still smarting from the loss of Mavinga, Luanda may be taking a hard line in an effort to restore some eroded bargaining power for the talks with UNITA set to resume this month. The Cubans, however, stand to gain little from suspending their withdrawal, which is almost two-thirds completed; some 33,000 Cuban troops had left as of 1 May.

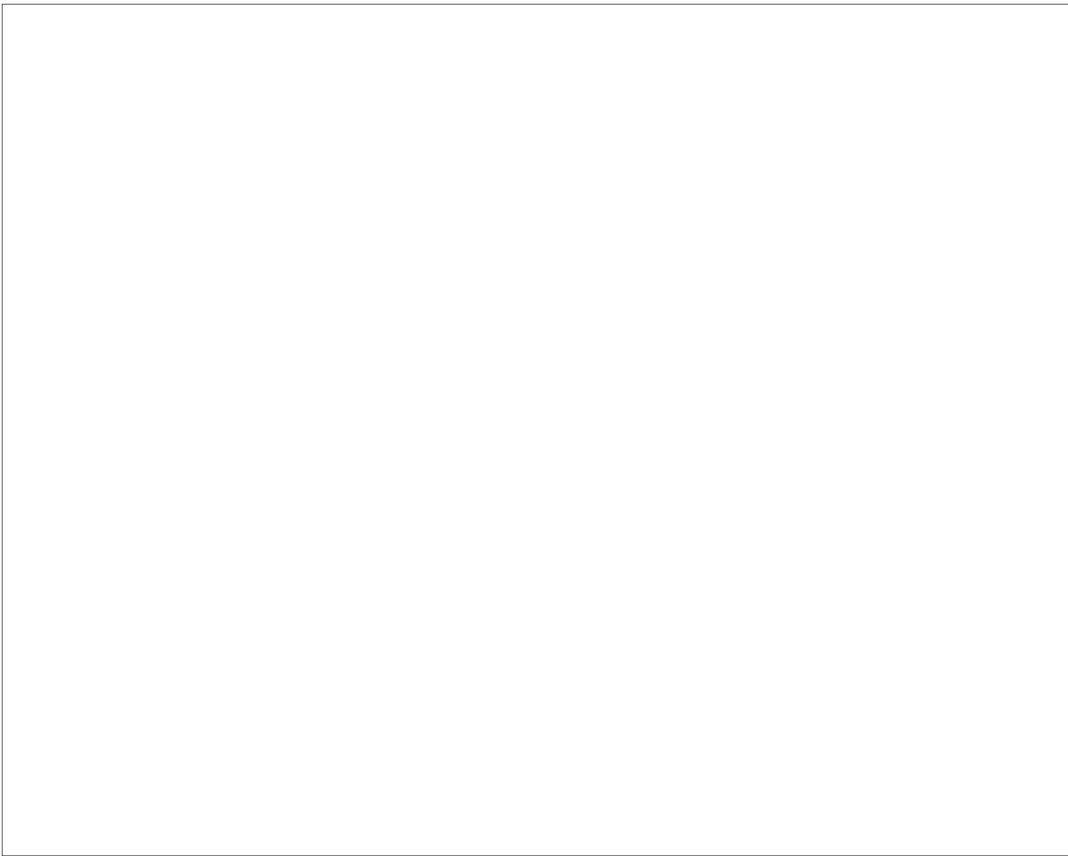
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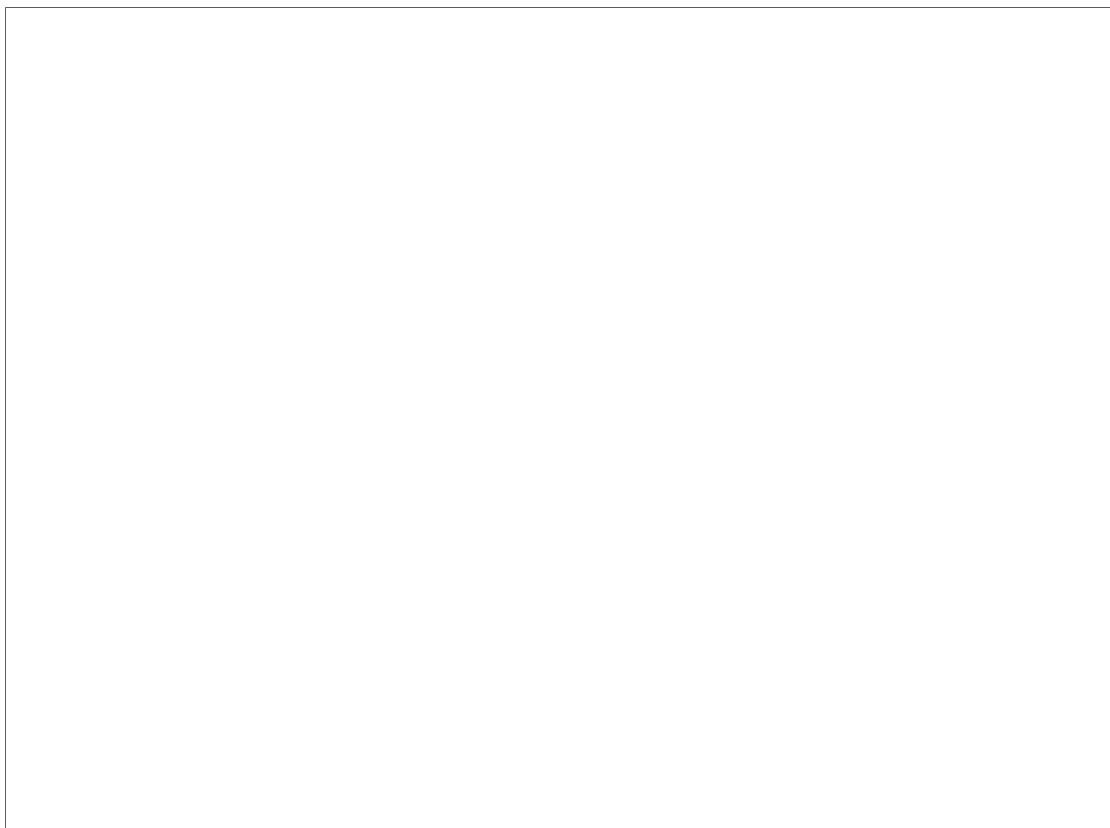
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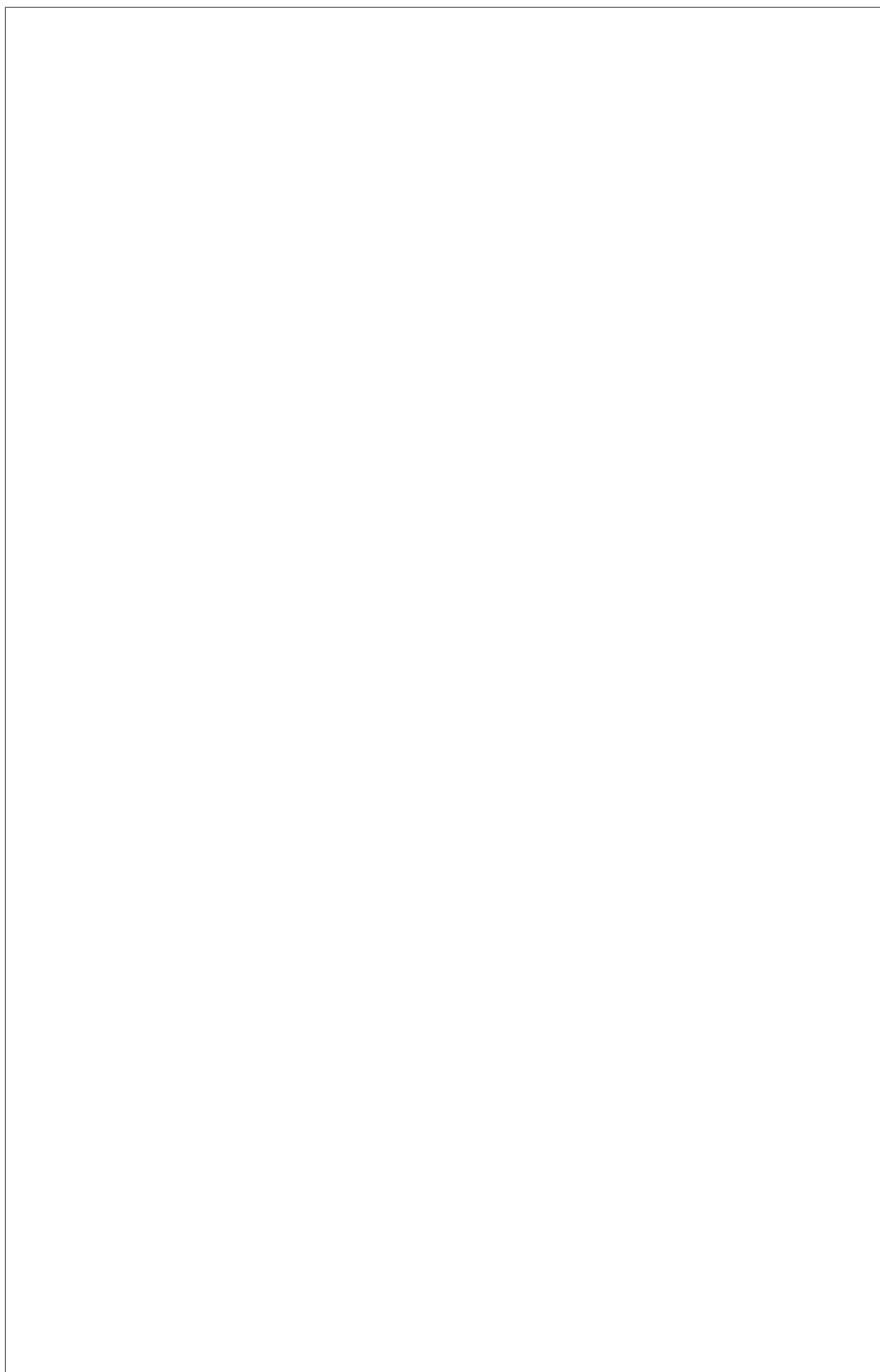
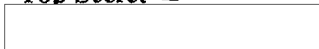


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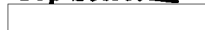
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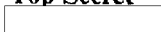
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In Brief

Europe

— Bundestag, after years, yesterday banned **West German** firms, foreign affiliates developing, making, trading in nuclear, biological, chemical weapons . . . response to disclosures of role in **Libyan** CW program, **Soviet** sensitivities.

East Asia

— **North Korean** Foreign Ministry stunned over Gorbachev meeting with Roh on Monday . . . threatening serious political consequences . . . suggests P'yongyang prepared to downgrade relations with **USSR**.

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Formosa Plastics: Breaking the Trade Barrier

Taiwan's largest private corporation, Formosa Plastics, is to build a \$3.5 billion industrial complex in the Xiamen special economic zone in southern China.

The Xiamen complex would double the dollar value of Taiwan's mainland holdings. It will produce naphtha, a petroleum product used in manufacturing solvents, plastics, and synthetic natural gas, as well as plastics and raw materials for synthetic fibers. China is offering Formosa Plastics a number of incentives, including the use of 38 square miles of land, \$1.2 billion in transportation and communications improvements, and more than \$210 million in financing. Beijing is convinced, probably correctly, that, if it can lure Formosa Plastics to the mainland, other Taiwan firms such as Yue Long Motors will be more willing to invest in China.

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Special Analysis

TAIWAN-CHINA: Ties That Bind

Trade and investment ties are growing rapidly and promise to erode the remaining barriers to direct political contacts between Taipei and Beijing.

Rising production costs, increasing environmental and labor activism, and domestic political uncertainty are making Taiwan businessmen seek investment opportunities abroad. Over the past few years, Taiwan firms have invested more than \$9 billion overseas, most of it in Southeast Asia and the US, but more than \$1 billion has gone to China. Beijing offers low interest loans, tax breaks, preferential land leases, cheap labor, and raw materials specifically earmarked for "Taiwan compatriots."

Taiwan businessmen have been among the few foreign investors to increase commitments in China since Beijing's crackdown on prodemocracy activists a year ago. Last month Formosa Plastics—the island's largest conglomerate—signed an agreement in principle to invest in a petrochemical plant in a Chinese special economic zone:

Political Shadowboxing

Chinese leaders hope Taiwan investors will make up for lost Western investment but probably are even more interested in economic interdependence for political reasons. They want to check a perceived growth in public support on Taiwan for independence and, over time, to make it increasingly difficult for Taipei to rebuff Beijing's reunification overtures.

Taiwan leaders remain wary and ambivalent about economic links.

Li, however, faces conflicting domestic pressures. Businessmen are pushing for even broader ties, as are many younger members of the ruling party who believe Taiwan can deal with Beijing so as to ensure its continued de facto independence. Conservatives in the ruling party who focus more on risks to Taiwan's national security and on opportunities to influence events on the mainland are pressing

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Li to proceed cautiously. His recent—promptly rejected—offer of government-to-government dialogue may have been intended primarily to reassure conservatives at home about his commitment to reunification.

Growing economic relations will lead gradually to more direct and regular political contacts. Quasi-official contacts between Beijing and Taipei on commercial issues are already occurring; an arbitration office was recently opened in Hong Kong to resolve trade disputes. Both take part in athletic events like the Asian Games and in international conferences as well.

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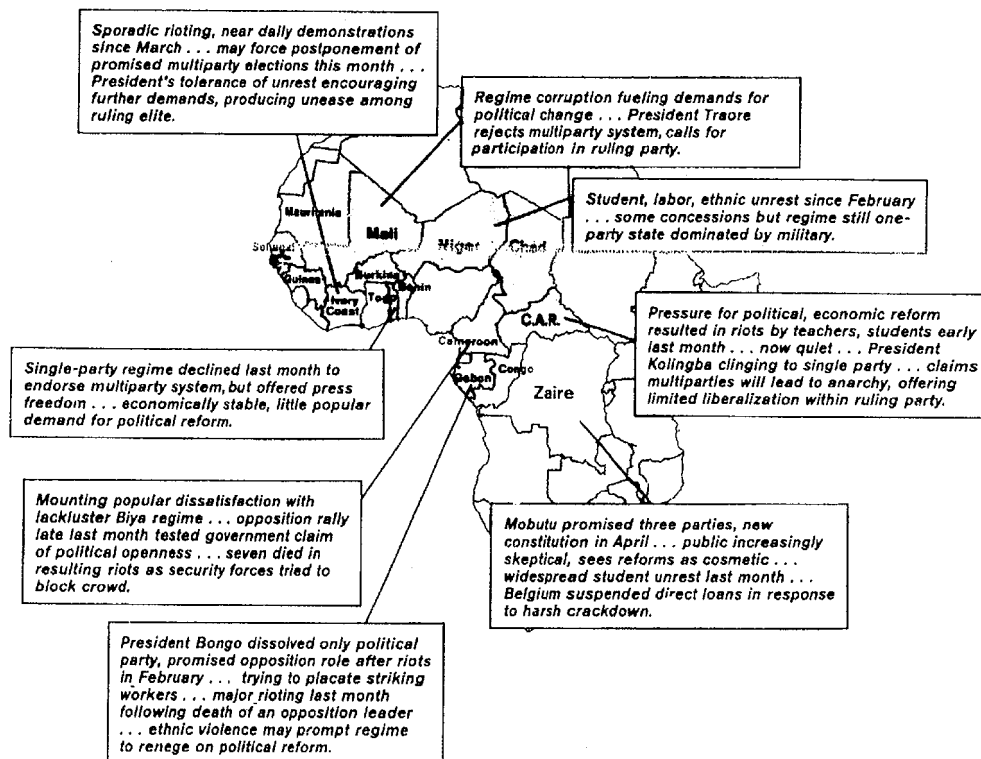
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Unrest in West Africa

Francophone country



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Special Analysis

WEST AFRICA: Reform and Unrest, Marching Hand-in-Hand

The recent unrest sweeping West and Central Africa—especially the Francophone countries—may lead to backtracking on political reforms. The lack of resources with which to ease resentment over corruption and economic austerity will nonetheless continue to undermine stability.

Recent rioting in once relatively stable countries like Ivory Coast, Gabon, and Cameroon is rooted in rapidly deteriorating economic conditions though it has included demands for political liberalization. Weak oil prices and the collapse of prices for coffee and cocoa have undone some of Africa's economic success stories. As living standards decline and unemployment rises, hostility toward the [redacted] long-entrenched rulers and anger over austerity measures have ignited public protest. [redacted]

In Ivory Coast, for example, successive strikes and demonstrations since March by various public-sector workers forced President Houphouet-Boigny to suspend IMF-backed wage and employment reductions. New austerity measures announced last week avoid controversial cutbacks but are unlikely to ameliorate underlying economic problems. [redacted]

Political Demands on the Rise

Economic grievances have spilled over into demands for far-reaching political reforms, including the removal of out-of-touch leaders and the adoption of multiparty democracy. Lacking resources [redacted] such leaders as Houphouet-Boigny and Gabon's President Bongo have promised political change in gradual steps in the hope of appeasing critics while maintaining control of the process. [redacted]

Many African governments fear that, without progress toward political liberalization, they will lose Western aid and investment to the newly emerging democracies in Eastern Europe. The regimes do not intend to relinquish power, however, and are likely to backtrack on reform rather than risk losing control. Zaire's President Mobutu already has stepped back from announced moves toward political pluralism: he has shifted authority from technocrats in the Cabinet to cronies in the Presidency, while security forces have brutally suppressed opposition and student demonstrations. [redacted]

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Pressure for political liberalization will aggravate underlying ethnic and regional tensions held in check by autocratic leaders. Few if any of the political groups now organizing appear able to create broadly based parties that could win elections, establish a government, and sustain a commitment to economic reform. Gabon's movement toward pluralism recently resulted in intertribal violence following the death of a leading opposition figure. Several leaders continue to insist that only one-party states can contain longstanding local rivalries that bedevil the region, and they have been quick to head off any sign of political unrest.

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